NECA NATIONAL EXCHANGE CARRIER ASSOCIATION INC
80 South Jefferson Road
Whippany, NJ 07981

Richard A. Askoff
Deputy General Counsel

Voice: 973-884-8350
Fax: 973-884-8008
E-mail: raskoff@neca.org

December 6, 2001

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, DC 20554

Re: 2000 Biennial Regulatory Review, CC Docket No. 01-174, Requirements Governing the NECA Board of Directors Under Section 69.602 of the Commission's Rules and Requirements for the Computation of Average Schedule Company Payments Under Section 69.606 of the Commission's Rules

Notice of *Ex Parte* Presentation

Dear Ms. Salas:

On December 5, 2001, National Exchange Carrier Association, Inc. representatives James W. Frame, Vice President Operations, and Richard A. Askoff, Deputy General Counsel, met with Sharon Webber, Vickie Byrd, Steve Burnett, Gary Seigel, Tom Buckley, Andy Mulitz, Bill Scher, Geoffrey Waldau , Bryan Clopton, and Ted Burmeister of the Common Carrier Bureau. NECA representatives provided Commission staff with the attached materials and discussed NECA's proposal for average schedule simplification.

In accordance with the Commission's rules, a copy of this Notice has been filed electronically in the above-referenced docket. Additionally, a copy has been provided to Qualex.

Sincerely,

attachment

Average Schedules

NECA Presentation to FCC
Accounting Policy Division

December 5, 2001

Introduction

- Agenda:
  - Average Schedule Background
  - Existing Formula Development & Approval Process
  - Average Schedule Simplification

Average Schedule Background

- Part of the pre-divestiture, pre-access "Settlements/Division of Revenues" Process.
- Used to determine small company share of interstate toll revenues.
- Applicable to majority of independent telephone companies
  - few small companies performed "cost studies" in years prior to divestiture.
- Formulas developed pursuant to negotiations between Bell System and Independent Telco representatives.
- Not filed with FCC.
  - Average schedule revenue requirements included in Bell System interstate tariffs and subject only to FCC tariff review & complaint processes.

Average Schedule Background (cont.)

- 1983 *Access Charge Order* promulgated 47 C.F.R. § 69.606.
  - First formal rule governing average schedules.
- Set substantive and procedural standards for formulas.
- Key elements :
  - Formulas must be "approved" by the Commission.
  - Payments must "simulate" disbursements of a "representative" cost company.
  - NECA required to file proposals each year, or certify that no filing is required.

Text of Section 69.606:

- § **69.606** **Computation of average schedule company payments.**

(a) Payments shall be made in accordance with a formula approved or modified by the Commission. Such formula shall be designed to produce disbursements to an average schedule company that simulate the disbursements that would be received pursuant to § 69.607 by a company that is representative of average schedule companies.

(b) The association shall submit a proposed revision of the formula for each annual period subsequent to December 31, 1986, or certify that a majority of the directors of the association believe that no revisions are warranted for such period on or before December 31 of the preceding year.

FCC Approval Proceedings

- December 31 “access” filings made each year for July 1 effective date (six-month review period).
- USF formulas (HCF & LSS) filed separately in October of each year for January 1 effective date (three-month review period).

FCC Approval Proceedings (cont.)

- Initial NECA "access" schedule filing in 1985 led to *City of Brookings* case, finally resolved in 1991.
- Other December 31 access filings have been non-controversial:
  - Few comments in any year, no oppositions since 1993.
  - Commission has generally approved NECA December 31 proposals "as filed" each year.
    - 1996 modification of CL formula.

Average Schedule Formula Development Process

- **Problem: how to "simulate" disbursements of representative cost companies?**
  - Both cost and average schedule companies keep Part 32 accounts.
  - In cost study, regulated costs are separated between jurisdictions (Part 36) and allocated to access elements (Part 69).
  - Average schedule companies do not perform Part 36 or Part 69 cost allocations, but do keep records of demand information (lines, minutes, exchanges, route miles, etc.).

Average Schedule Formula Development Process (cont.)

- Solution (part 1):
  - Obtain Part 32 (total company accounting) data from a representative sample of cost and average schedule companies.
  - Obtain Part 36 & 69 data from representative cost companies.
  - Analyze the way that representative cost companies separate their costs, and develop models for specific accounts.
    - Model explains how costs in account A are allocated to access elements X, Y and Z in a cost study.
  - Apply derived models to sample average schedule company accounting data.
- Result? "Simulated" cost studies for sample average schedule companies.

Average Schedule Development Process (cont.)

- Next problem: how to simulate cost study results for all average schedule companies (sample and non-sample)?
  - Study the relationships between sample company access element costs and known demand variables.
    - Compare costs in categories to number of lines, number of exchanges, number of minutes, cable route miles, etc. to see if statistically valid relationships exist.
      - Example: significant correlation between common line costs and lines per exchange.
  - Develop mathematical formulas that express relationships in sensible ways.
  - Resulting formulas, based on commonly-available demand variables, can be used to determine settlements for <u>all</u> average schedule companies.

Sample formula:

COMMON LINE FORMULA

Settlement = *Common Line Access Lines x Settlement Per Common Line Access Line*

If Lines Per Exchange less than 423 then,
Settlement per Line = $13.906868 + ($-0.007564 x Lines Per Exchange)

If Lines Per Exchange greater than or equal to 423 but less than 10,000 then,
Settlement per Line = $8.020959 + ($1136.320550/ Lines Per Exchange)

If Lines Per Exchange greater than or equal to 10,000, but less than 15,000, then,
Settlement per Line = $11.615823 + ($-0.000348 x Lines Per Exchange)

If Lines Per Exchange greater than or equal to 15,000, then,
Settlement per Line = 0.7897 x {$8.020959 + ($1136.320550/ Lines Per Exchange)}

Some observations:

- NECA formula development process has repeatedly been endorsed by the Commission in orders issued since 1985.
- Process involves extensive data submissions by hundreds of small telephone companies each year.
- Each study involves approximately one year to complete, plus six-month FCC review period.
- Extensive documentation involved in filings.
- Bottom line? Little year-to-year variance in "access" formulas.

Simplification

- NPRM issued 8/31/01 proposing ways to simplify process.
- NECA concept:
  - Use "bottom-line" adjustment mechanism
    - Adjust formulas up or down based on changes experienced by representative cost companies.
  - Eliminate approval requirement.
    - Approval process redundant.
    - Average schedule settlements should be treated like any other portion of NECA tariff revenue requirement (no legal requirement to approve in advance of tariff filing).
    - FCC may still review in context of tariff filings.